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RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
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RUEHJO/AMCONSUL JOHANNESBURG 6178
RUEHTN/AMCONSUL CAPE TOWN 3943
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DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
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PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER FEBRUARY 9,
2007 ISSUE

PRETORIA 00000514 001.2 OF 003

11. (U) Summary. This is Volume 7, issue 06 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Chinese President Arrives in South Africa
 - Earnings Gap Widens on Skills Basis
 - Car Sales Growth Slowing
 - Average House Costs R811,000
 - Reserves Increase Slightly
 - South Africa Department of Public Enterprises Acknowledges Energy Shortage
 - South African Airways Cash Relief Talks
 - SA Stands to Gain Billions of Rand from Carbon Trading
- End Summary.

Chinese President Arrives in South Africa

12. (U) As part of his eight-nation, twelve-day African tour, Chinese President Hu arrived in South Africa on February 6, where he talked with President Mbeki about deepening the "New Strategic Partnership" forged at the Beijing Focac Summit in November 2006. The two countries signed agreements on economic cooperation and opening the Chinese market to South African fruit exports. China also pledged to assist with South Africa's Accelerated and Shared Growth Initiative (ASGI-SA), the Joint Initiative on Priority Skills Acquisition development program (JIPSA), and generating Chinese foreign direct investment in South Africa. The countries also intend to launch a joint Economic and Trade Cooperation website this year. (Business Day, February 7. Pretoria News, February 7)

Earnings Gap Widens on Skills Basis

13. (U) The earnings gap between unskilled and skilled workers has widened since the mid-1990s, but race and gender gaps in managers' earnings have narrowed in recent years. This is according to new research on income inequality released by the Human Sciences Research Council's (HSRC's) Employment, Growth and Development Initiative. Researchers found that earnings of low-skilled men and women, adjusted for inflation, declined between 1995 and 2003, but those of more highly skilled workers and managers did not change

much. In 1995-2003, unskilled men saw average real hourly earnings fall from R9 to R5.90, with a particularly sharp decline for unskilled black men. Real earnings of unskilled women fell from R8 to R5.10. However, the gap between the earnings of black and white managers narrowed, as did the gap between male and female managers, mainly as a result of employment equity policies and legislation. Furthermore, the study found that large firms pay 10%-40% more than small firms, depending on the skills category, and the earnings gap is far narrower in the public sector than in the private sector. (Business Day, January 5)

Car Sales Growth Slowing

14. (U) Figures released by the National Association of Automobile Manufacturers of South Africa (NAAMSA) indicate that 52,213 vehicles were sold in January 2007, an increase of 6.9% over January 2006 sales. Although higher than predicted by industry analysts, the figure was much lower than the double-digit increases of recent years. Industry players predict that vehicle sales growth will come down in 2007 as consumers start facing-up to a tighter financial environment. South Africans, already facing high personal debt, experienced four interest rate hikes in 2006 and more hikes are expected in 2007. The January sales growth came mostly from sales of light and heavy commercial vehicles, which grew by 12.8% and 18.6%, respectively, as high levels of economic activity and increased growth in spending on infrastructure drove sales in these market segments. On the other hand, growth in car sales was a marginal 4.5% higher than the number sold in the corresponding month last year, despite the fact that January is traditionally a strong sales month (35,819 units sold in January). NAAMSA expects the new car market to grow more modestly this year at between 4% and 6%. SA again fared well on the export front, with 8,556 units exported in January, which is 7.9% higher than in January 2006. NAAMSA projects exports to grow by 22% to 220,000 vehicles in 2007. (Fin 24, January 5)

PRETORIA 00000514 002.2 OF 003

Average House Costs R811, 000

15. (U) According to figures released by ABSA, South Africa's largest bank, the average price of houses in the so-called middle segment of the residential property market increased by 15.2% year-on-year in 2006 (compared with a 22.7% increase in 2005) to about R811,000 (\$112,000) in nominal terms. Real house prices (adjusted for inflation) increased by 10% in 2006, compared with a growth rate of 18.7% in 2005. ABSA expects nominal house price growth to be 9.1% for 2007. From 2000 to 2006, the South African residential property market experienced strong average price growth of about 20% a year in nominal terms and around 14.5% a year in real terms. Unfortunately, expansion of the country's road infrastructure has not kept pace with mushrooming new residential developments, causing higher levels of traffic congestion impacting negatively on productivity and transport costs. (Fin 24, February 8)

Reserves Increase Slightly

16. (U) South African Reserve Bank (SARB) data showed that South Africa's gross reserves were up 1% at \$25.88 billion in January from \$25.61 billion in December. Net reserves, also known as the international liquidity position, increased to \$23.27 billion, up from \$22.98 billion in December. The moderate increase in reserves was due to a weaker rand that limited the Reserve Bank's activity in the market. The rand has, however, started to claw its way back, which is expected to boost accumulation of reserves in coming months, analysts said. (Business Day, January 8)

South Africa Department of Public Enterprises Acknowledges Energy Shortage

17. (U) The Department of Public Enterprises (DPE) released a confidential report on February 3 which paints a bleak picture for

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energy consumers, calling for better energy planning and predicting future power shortages. The report, "Review of Security of Supply in South Africa," recommends an overhaul to the energy planning process which has largely been led by parastatal electricity provider Eskom. In a separate press statement, DPE stated that the responsibility for electricity supply security planning rests with the Department of Minerals and Energy and that Eskom's role is to help meet the demand for additional power generation. The report acknowledges that the energy supply is very tight, as evidenced by last month's rolling blackouts. At the time, DPE downplayed the black-outs as a one-time event. Now, DPE has released a report which paints a much bleaker picture. (Engineering News, February 6 and DPE Press Release, February 3)

South African Airways Cash Relief Talks

18. (U) Talks are under way with the Treasury to secure state support for the further recapitalization of struggling national airline South African Airways (SAA), which had experienced another "very tough" financial year, Public Enterprises Minister Alec Erwin told Parliament February 1. Erwin said that the airline needed additional funds to strengthen its balance sheet and to expand its fleet and route network. In October last year, South African Airways started a low-budget airline, Mango, to compete with Nationwide, 1Time and Kulula airlines. Mango sold thousands of below-cost tickets, prompting a price war among the other airlines. At the time, critics argued the government was subsidizing South African Airways and Mango and predicted a government bailout. Should the Treasury agree to the use of state funds for a recapitalization, it would be the second capital injection received by SAA in three years. The first was the R6 billion (\$0.85 billion) ploughed by Transnet into the organization early in 2004 to clear its hedge book losses. The recapitalization would give SAA a boost as it separates from former parent company Transnet and operates as an independent state-owned enterprise reporting directly to government. (Business Day, February 2)

SA Stands to Gain Billions of Rand from Carbon Trading

PRETORIA 00000514 003.2 OF 003

19. (U) A survey conducted by the International Quality Productivity Center (IQPC) has indicated that South Africa stands to gain up to R5.8 billion (\$0.8 billion) from carbon credit trading in the next 10 years. SA is reported to have a potential for millions of tons carbon credits, while many coal power-based industries are converting to clean energy. Under the United Nation's Kyoto Protocol, which SA has ratified, developing and developed countries are encouraged to exchange carbon credits for the purpose of reducing global carbon emissions blamed for exacerbating global warming. The Clean Development Mechanism (CDM) is the vehicle employed for carbon trading and SA has launched six carbon trading projects designed to reduce carbon emissions. According to the IQPC survey, many countries have been slow to engage in the certified emission reduction process. The study observed that some African companies need to see tangible proof of profitability from the carbon trading projects, while in the case of SA it found that some local municipalities were uncertain about the implications on projects under the Public Finance Management Act. Of the six projects registered by SA companies, only the one implemented by the state-funded PetroSA is fully operational. The project involves the transforming of biogas to energy. The Department of Minerals and Energy is the authority responsible for the rules and regulations pertaining to carbon trading, while PriceWaterhouseCoopers oversees the accreditation process in SA. (Business Day, January 15)

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